

8-25-2010

Dodd-Frank Act — Half a Loaf Plus a Slice

Edward H. Sibbald

Follow this and additional works at: <https://digitalcommons.georgiasouthern.edu/savannah>

Recommended Citation

http://coba.georgiasouthern.edu/pdf%20files/2010_08_25_Sibbald_Dodd_Frank_Act.pdf

This article is brought to you for free and open access by the Business, College of - College Publications at Digital Commons@Georgia Southern. It has been accepted for inclusion in Business in Savannah Articles by an authorized administrator of Digital Commons@Georgia Southern. For more information, please contact digitalcommons@georgiasouthern.edu.

Dodd-Frank Act — half a loaf plus a slice

Wait. Don't stop here. I know you might read the headline and say enough is enough already about financial reform. It's understandable after all the news coverage during the past two years, which has reached a crescendo during the past three months. But please continue reading this article and its sequel next week.

The Dodd-Frank Act is now a month old and, as the political rhetoric and punditry wanes, it is time to look at this law.

Why? It affects everyone — individuals, families, small and large businesses — and not just the 2,330 employees and management of 35 banks with \$8.9 billion in assets headquartered in the coastal region of Georgia.

The new law is not perfect, but it was the best that could be accomplished given the hyper-partisan, ideology-ridden dysfunctional Congress (especially the Senate). Its virtue lies in the adage: progress, but not perfection. Perhaps it

can be best described as a half a loaf of bread plus a slice.

Space does not permit a review of all the key provisions, which are available on many news-related websites. Instead, let's look at its virtues and vices.

First, the favorable aspects of the bill include:

1. It provides a permanent increase to \$250,000 in deposit insurance protection per account holder. This is a big plus for families and smaller businesses and provides local banks with an additional degree of competitive protection versus banks considered too big to fail.

2. The act restricts higher-risk proprietary trading activities and places a cap on banks' investments in hedge funds and private equity. It also requires greater market information about derivative transactions and will require financial institutions to maintain higher capital levels.

3. It will bring long overdue regulatory oversight to the "shadow financial services industry" — the mortgage brokers, payday lenders (outlawed in Georgia), consumer finance companies private equity and hedge funds. "Non-bank" financial services companies initiated more than 90 percent

The new law is not perfect, but it was the best that could be accomplished given the hyper-partisan, ideology-ridden dysfunctional Congress.

of subprime mortgage loans.

4. It recognizes the special role smaller community banks play as the source of financing for many businesses on Main Street. Many of the provisions provide exemptions for banks under \$15 billion in assets. Only two banks in Georgia are affected. At the same time, it does not excessively restrict the mega-"Wall Street" institutions from serving their proper and appropriate role as a financial intermediary for larger multinational companies.

5. The act establishes a "resolution authority" to monitor and, if necessary, wind down and bury distressed banks previously deemed "too big to fail." The government and regulators will have tools to address future large financial institution failures and the aftershocks — financial crises and credit crunches — that were unavailable to key regulators and the U.S. Treasury in 2007 and 2008.

However, the act still leaves

many things to be resolved, despite the fact it's 2,200 pages long, or twice the size of the King James Bible. The issues include:

1. The law is more a set of broad principles and guidelines than restrictions in many areas, leaving state and federal regulators and two new groups to establish the rules of the game. Although banking laws have always relied on regulators to develop appropriate business practices, this sweeping bill is the greatest delegation in responsibility to the regulators in history.

2. Many of the new provisions will be phased in over a two- to three- year period. Hence, the full impact of revised regulatory guidelines with their inevitable unintended consequences will not be clear until 2013-14.

3. It creates a Financial Stability Council to oversee the activities of financial institutions that pose a risk to the entire economy. More contentious is the establishment of a

Consumer Financial Protection Bureau with sweeping authority over appropriate financial products/services and customer information disclosures. Many fear it will inhibit financial innovations and all financial institutions will face higher costs to comply with its regulations.

4. The ambiguous nature of the law leads many to believe it is too tough already, while other analysts and industry experts feel it is not tough enough. The lack of clarity in this act is troublesome.

As regulators begin to establish practices and policies consistent with the letter and spirit of the law, everyone — banks, businesses, lobbyists, consumer advocacy groups — will offer their opinions and exert their influence in a never-ending tug of war.

I have my own opinions and concerns, but you will have to wait until next week's article. Stay tuned, and keep reading Business in Savannah.

Edward H. Sibbald is the BB&T executive in residence in banking, College of Business Administration, Georgia Southern University and director of the college's Center for Excellence in Financial Services. Contact him at ehsibbald@georgiasouthern.edu.



Courtesy of the Savannah Development and Renewal Authority

Assisting in the ribbon-cutting for Hanna Leigh A Maternity Boutique were Richard David, left, father of owner Brittney Johnson; Marti Barrow, executive director of the Tourism and Leadership Council; Naderia Bailey, Johnson's cousin; Brenda Davis, Johnson's mother; Pete Liakakis, county commission chairman; Charlie Brown, of the Entrepreneurial Center; Johnson; her husband, Jayson Johnson, and daughter, Janiyah Hanna Leigh Johnson; Alderman Van Johnson; Johnson's brother-in-law Billy Johnson, mother-in-law Sheila Johnson and father-in-law Gary Johnson; Cari Clark Phelps, Downtown Business Association president; and Tony Cooper, the Savannah Development and Renewal Authority chair.

Hanna Leigh A Maternity Boutique holds grand opening in downtown Savannah

BUSINESS IN SAVANNAH

The Savannah Development and Renewal Authority hosted a ribbon cutting ceremony for the grand opening of Hanna

Leigh A Maternity Boutique at 20 W. State St. Aug. 5.

Officials from the City of Savannah, the SDRA, Keep Savannah Beautiful, the Tourism Leadership Council,

The Entrepreneurial Center and the Downtown Business Association were on hand to welcome owner Brittney Johnson, who has been in the fashion industry for more than

10 years.

The boutique, located between Whitaker and Bull streets in downtown Savannah, offers upscale yet affordable clothing for

mothers-to-be.

The hours of operation are 10 a.m. to 6 p.m. Monday through Saturday.

For information, go to hannaleighmaternity.com.